

CITY AUDITOR'S OFFICE



SPECIAL REPORT

THE ANIMAL FOUNDATION INTERNATIONAL REVIEW OF FINANCIAL AND MANAGERIAL ISSUES

Report No. CAO 2300-0102-05

October 2, 2001

RADFORD K. SNELDING, CPA, CIA, CFE

CITY AUDITOR



October 2, 2001

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Subject: **Special Report**
The Animal Foundation International – Review of
Financial and Managerial Issues (CAO 2300-0102-05)

Attached please find the report mentioned above.

Sincerely,

A handwritten signature in black ink, appearing to read "Radford K. Snelding", is written over a horizontal line.

Radford K. Snelding, CPA, CIA, CFE
City Auditor

CITY AUDITOR'S OFFICE

CITY AUDITOR
RADFORD K. SNELDING
CIA, CPA, CFE

CITY OF LAS VEGAS
400 STEWART AVENUE
LAS VEGAS, NEVADA 89101

VOICE 702.229.2472
FAX 702.386.9252
TDD 702.386.9108
www.ci.las-vegas.nv.us

EXECUTIVE SUMMARY

SPECIAL REPORT

THE ANIMAL FOUNDATION INTERNATIONAL

REVIEW OF FINANCIAL AND MANAGERIAL ISSUES

REPORT CAO 2300-0102-05

The purpose of the executive summary is to convey in capsule form the significant issues of the report. The executive summary is a vehicle for reviewing the report and should be used in conjunction with the entire report.

INTRODUCTION

Animal Foundation International (AFI) is a non-profit organization founded in 1979 (originally known as Animal Rescue) to save abandoned animals. Over the years, AFI has expanded its services to include a spay and neuter clinic, a vaccination clinic, an adoption center, and a foster care program. Under a 1995 agreement (the Agreement), AFI operates the City's animal shelter and provides various animal services to the public. In return for its services, the City compensates AFI \$36,750 per month or \$441,000 per year and allows AFI to retain the fees collected for their services including all license, impound and boarding fees. In 1996, the City provided AFI a rent-free facility. In January 2001, AFI opened a new shelter built with funds from donations. The new shelter was built on two acres of city land.

In 2001, various allegations of misconduct and mismanagement at AFI arose from the public and former AFI employees. The City Manager requested that Detention and Enforcement investigate these allegations. The City Auditor's Office was subsequently asked to provide assistance in addressing financial and managerial issues raised during the investigation.

OVERVIEW OF SIGNIFICANT ISSUES

During our review of financial and managerial issues raised during the investigation, we identified issues both AFI management and city management should address:

- ▶ AFI has a weak control environment.
- ▶ Animal licensing data is incomplete, inaccurate, and not easily accessible.
- ▶ The use of multiple licensing systems by the City and AFI has created redundancies and inefficiencies.
- ▶ The current licensing systems lack certain features to ensure data accuracy and there is no reconciliation of the multiple systems.
- ▶ AFI's financial reports submitted to the City do not align with the Agreement.

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SPECIAL REPORT
THE ANIMAL FOUNDATION INTERNATIONAL
REVIEW OF FINANCIAL AND MANAGERIAL ISSUES
CAO 2300-0102-05

OBJECTIVES

The City Manager's Office and the Chief of Detention and Enforcement requested the City Auditor's Office to review financial and managerial issues related to Animal Foundation International (AFI) in conjunction with an investigation of AFI by Detention and Enforcement.

SCOPE AND METHODOLOGY

Fieldwork was performed in accordance with generally accepted governmental auditing standards. Procedures included:

- ▶ Interviewing personnel;
- ▶ Observing operations and activities; and
- ▶ Reviewing records, reports, and other applicable documentation.

During our fieldwork, AFI staff were cooperative in supplying information related to our review. However, the scope of our procedures was limited due to the following:

- ▶ Certain documents either did not exist or could not be located due to turnover of AFI accounting personnel and the recent change in facilities.
- ▶ Certain individuals were not available for questioning.
- ▶ Certain issues related to the old facility could not be independently verified as AFI had moved to a new facility prior to the start of our work.

BACKGROUND

Animal Foundation International (AFI) is a non-profit organization founded in 1979 (originally known as Animal Rescue) to save abandoned animals. Over the years, AFI has expanded its services to include a spay and neuter clinic, a vaccination clinic, an adoption center, and a foster care program.

In 1995, the City entered into a ten-year agreement (with options to extend) with AFI (the Agreement) to operate its animal shelter and provide the following services:

- ▶ Care and shelter
- ▶ Euthanization and disposal
- ▶ Impound and quarantine
- ▶ Sterilization of adopted and impounded animals
- ▶ Rabies vaccinations
- ▶ Collection of licensing, impounding, and boarding fees

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- ▶ Reclamation program
- ▶ Emergency medical care
- ▶ Low cost spay and neuter
- ▶ Adoption program

AFI agreed to charge service fees as prescribed in the Agreement. In return for its services, the City agreed to compensate AFI \$36,750 per month or \$441,000 per year and to allow AFI to retain the fees collected for their services. In April 1998, the Agreement with AFI was amended to allow AFI to retain all license, impound and boarding fees as additional compensation for their services.

In 1996, the City provided AFI a rent-free facility. In January 2001, AFI opened a new shelter built with funds from donations. The new shelter was built on two acres of city land.

Animal Control, a division of the Department of Detention & Enforcement, transports stray animals to AFI, provides animal control services, and responds to citizen inquiries and complaints concerning animals within the City of Las Vegas. Animal Control Officers investigate complaints, and where warranted, issue notices of violation.

In 2001, various allegations of misconduct and mismanagement at AFI arose from the public and former AFI employees. The City Manager requested that Detention and Enforcement investigate these allegations. The City Auditor's Office was subsequently asked to provide assistance in addressing financial and managerial issues raised during the investigation.

The following sections summarize the results of our review of financial and managerial issues and conclusions and recommendations.

I. REVIEW OF FINANCIAL AND MANAGERIAL ISSUES

The following is a discussion of financial and managerial issues raised by former and current employees of AFI and the public:

A. FINANCIAL CONTROLS

1. CASH AND FINANCIAL CONTROLS

ISSUE: Various former employees stated that AFI had inadequate cash/financial controls. They noted that cash was not properly safeguarded, funds were not always accounted for or deposited timely, and incompatible duties were not always segregated to prevent employee theft.

CONDITION:

- ▶ The CPA who audited AFI's 1998 year-end financial statements issued a management letter that identified several internal control weaknesses including the following:
 - AFI did not maintain a budget;

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- There was a lack of segregation of duties in the review of bank statements;
 - There was no approval of time cards by management before payment; and
 - AFI did not have a formal accounting manual documenting the procedures for fiscal operations.
- ▶ The practice of recording all safe drops and requiring a second person to verify the safe drop was not implemented until June 20, 2001.
 - ▶ The AFI President stated that it was the responsibility of the Controller to ensure the adequacy of cash and financial controls. She believes that over the years some Controllers maintained good controls, while others did not.
 - ▶ The AFI President indicated that over the past several years there has been a high turnover of staff, especially in the Controller position. As a result, proper controls were not always established or followed.
 - ▶ The AFI President also stated that, occasionally, funds received by AFI were not deposited at the bank on a timely basis.

2. FUNDS LEFT UNDER THE AFI PRESIDENT'S OFFICE DOOR

ISSUE: A former employee stated that funds were often left under the door of the AFI President's office.

CONDITION:

- ▶ The AFI President acknowledged that staff would occasionally slip funds under her office door after hours or when she was not in her office.
- ▶ She also stated that the practice of temporarily putting funds in her office was originally suggested by a former Controller for security purposes for staff that did not have access to the safe.
- ▶ The AFI President stated that her office was locked when she was out of her office.

3. COMBINATION TO THE AFI SAFE

ISSUE: A former employee stated that multiple employees knew the combination to the safe.

CONDITION:

- ▶ AFI does not have a formal policy regarding which employees should have access to the safe.
- ▶ According to the AFI President, she and the Controller were the only personnel that were to know the combination to the safe.
- ▶ The AFI President acknowledged that during a short period in 2000, four AFI employees knew the combination to the safe including herself, the Controller, an employee who worked temporarily as the Controller who had transferred to another department, and a former Controller who returned temporarily to assist the new Controller.

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- ▶ The AFI President acknowledged that the combination to the safe was not always immediately changed after a change in Controllers. She also acknowledged that the security of the safe could have been compromised if the combination to the safe was disclosed to others.

4. PROPERTY THEFT

ISSUE: Several former employees stated that various personal and company properties were stolen from the premises of AFI.

CONDITION:

- ▶ According to the AFI President, various personal and company properties were stolen from AFI facilities.
- ▶ According to the AFI President, most of these incidents involved low valued items. Therefore, the incidents were rarely recorded or reported to the authorities for investigation.
- ▶ In one incident, approximately \$6,000 cash, including a \$300 change fund, was stolen from the safe. The incident was reported by AFI to the Deputy City Marshal for investigation and an insurance claim was filed.
- ▶ The AFI President also confirmed that unsecured pet food was often stolen. AFI has subsequently improved its controls over pet food.
- ▶ According to the AFI President, several computers and printers in the new shelter were recently stolen at night. AFI reported the incident to the Deputy City Marshal but did not file an insurance claim because the value of the stolen computer equipment was estimated to be lower than the \$500 deductible.

5. EMPLOYEE THEFT

ISSUE: The AFI President informed us that the former Shelter Director stole approximately \$4,000 from AFI.

CONDITION:

- ▶ In October 1999, AFI hired an employee to design its website.
- ▶ This employee was promoted to the position of Shelter Director in January 2001.
- ▶ On March 31, 2001, AFI identified a cash shortage of \$3,753.
- ▶ According to the AFI President, after the cash shortage was identified, the Shelter Director disappeared and did not report back to work for several weeks.
- ▶ On April 24, 2001, the Shelter Director returned to the shelter and repaid \$3,982 he had stolen from AFI. He was subsequently relieved of his duties as Shelter Director.
- ▶ According to the AFI President, the former Shelter Director was a good employee who was under tremendous stress. The AFI President has not reported the incident to the authorities as she does not believe the former Shelter Director is a thief.

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- ▶ According to the AFI President, the former Shelter Director is no longer a full-time employee of AFI. However, according to AFI's payroll records, he received at least 88 hours of pay from AFI during the three-week period from June 24 to July 14, 2001.
- ▶ The AFI President said that she asked the former Shelter Director to return on an as needed basis to help the shelter staff.

B. FINANCIAL TRANSACTIONS

1. VACCINATION REVENUE

ISSUE: A former employee stated that a shortage of \$80,000 in vaccination revenue was identified during the 1999 financial audit and that the CPA conducting the financial audit concluded that the discrepancy was due to a computer problem and gave AFI a satisfactory audit. The former employee also claimed that \$80,000 could easily have been taken from AFI with the existence of this discrepancy.

CONDITION:

- ▶ We discussed this allegation with the CPA who conducted the 1999 financial audit. She noted that there had been a difference in vaccination revenue between the general ledger and the ARK system. Due to system conversion and operational issues, the CPA knew the ARK system balance was not reliable at the time.
- ▶ The CPA stated that she performed analytical review tests on vaccination revenue and determined that the general ledger balance was reasonable and that the vaccination revenue per the ARK system was understated.
- ▶ The general ledger vaccination revenue balance was included in the 1999 audited financial statements and an unqualified audit opinion accompanied these financial statements.
- ▶ While a difference in vaccination revenue existed between the ARK system and the general ledger system, the CPA identified no evidence of actual loss.

2. \$44,000 TRANSFER

ISSUE: A former AFI employee stated that in late November or early December 2000 she was contacted by an AFI employee who was reviewing the AFI accounting records and questioned as to where a \$44,000 transfer from the AFI master checking account had gone. The AFI employee told the former AFI employee that he did not see evidence that it had gone into AFI's operating or payroll account.

CONDITION:

- ▶ We reviewed the November and December 2000 AFI master account bank statements and identified a \$44,000 debit on the November 2000 bank statement. We also noted that there

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were two November 2000 bank statements, an original and a revised. The original November 2000 bank statement had a \$44,000 debit while the revised did not.

- ▶ While the two November 2000 bank statements had the same beginning and ending balances, the original statement's beginning balance and detailed transactions did not total to the ending balance. Other errors and inconsistencies were also noted with the original bank statement.
- ▶ No errors or inconsistencies were noted in the revised November 2000 bank statement.
- ▶ We contacted the related bank in regards to this issue and a representative confirmed that the original November 2000 master account bank statement was in error.
- ▶ The \$44,000 debit is considered to be an erroneous transaction.

3. COBRA PAYMENT DEPOSITS

ISSUE: A former employee stated that while she was employed at AFI she received a phone call from a former employee questioning why her personal checks for COBRA insurance payments for September, October, and November 2000 had not been deposited until December 2000. The former employee stated that she believed "the money just got piled up and with so many people in and out of the finance department, no one could keep track of the mess that was going on there."

CONDITION:

- ▶ We researched all insurance payments made by AFI for the period in question and found that only one employee was enrolled in the COBRA insurance plan. AFI received monthly payments from this employee and then in turn paid the insurance carrier.
- ▶ We also reviewed the personnel files of former employees whose insurance coverage was terminated during the period in question and found only one employee's file with such an application, the same employee previously identified.
- ▶ We contacted the former employee and she stated that she did encounter a problem with her COBRA payments being deposited, but that the problem was corrected soon after contacting AFI.
- ▶ COBRA insurance payments by former AFI employees are now sent directly to the insurance carrier.

4. PROBATE FUNDS

ISSUE: A former AFI employee wanted air conditioning for the animals and knew that there was probate money of \$7K to \$10K that could be used to pay for the expense. According to the

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former employee, the AFI President refused to pay for an air conditioner and was able to get one donated by a local hardware store.

CONDITION:

- ▶ Probate is a legal process whereby a court determines who will inherit a decedent's property and identifies the estate's assets.
- ▶ AFI maintains a folder with both donations and probate information.
- ▶ We reviewed AFI's files and identified documentation related to four probate cases:
 - In one case, we identified a copy of a deposit slip and check stub.
 - In two of the cases, we were not able to locate a deposit slip or check stub.
 - One case is still in probate.
- ▶ We were not able to obtain information related to the \$7-\$10K probate case referred to by the former AFI employee.
- ▶ There may be additional cases involving AFI probate funds, but we had to rely on AFI's records since the Clark County Public Administrator could not provide us with payments made to AFI since payments are tracked by case name or number, not by organization.

5. IRS FORM 990

ISSUE: An individual noted differences in the amount of the AFI President's salary being reported in a copy of AFI's 1996 IRS Form 990 received from the IRS and a copy received from AFI.

CONDITION:

- ▶ Two copies of AFI's 1996 Form 990 exist, an original and an amended. AFI's President stated that the original was amended to correct an error in the disclosure of her salary.
- ▶ The original 1996 Form 990 reports a salary for the AFI President of \$64,942 while the amended 1996 Form 990 reports a salary of \$36,673.
- ▶ The salary amount within the amended Form 990 agrees with the amount disclosed on the AFI President's 1996 W-2 Wage and Tax Statement.
- ▶ The original 1996 Form 990 was filed with the IRS as evidenced by an IRS receipt stamp.
- ▶ We were unable to determine if the 1996 Form 990 marked as amended was ever filed with the IRS. However, we question whether it was ever filed considering balances from the original 1996 Form 990 (rather than the amended return) were used by a CPA in the creation of the 1997 Form 990.

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C. LICENSING DEPARTMENT

1. LICENSING OPERATION RESULTS

ISSUE: A former licensing employee stated that the AFI President told him that the AFI Licensing Department lost \$51,000 from January through December 1999. The former employee claimed that “there was no way that the Licensing Department could have spent or cost the foundation \$51,000 in one year.”

CONDITION:

- ▶ The 1999 audited financial statements show the following financial results for the Licensing Department:

Licensing Revenue	\$235,850
Licensing Expenses	<u>\$213,881</u>
Increase in Unrestricted Net Assets from Licensing	\$ 21,969

- ▶ No evidence of a \$51,000 loss in AFI’s Licensing Department was identified in our review of the 1999 audited financial statements.

2. LICENSING SYSTEMS, RECORDS, AND PAPERWORK

ISSUE:

- ▶ A former employee stated that boxes of licensing paperwork were thrown away before they were entered into the licensing system.
- ▶ According to Animal Control, AFI Licensing, and a city resident, there were instances where pet owners had purchased licenses and had their receipts, but the licenses had not been entered into either licensing system.

CONDITION:

- ▶ Licensing information is stored on two systems. The city licensing system is a legacy mainframe COBOL system that was built in-house by city employees in May 1982. AFI purchased the ARK licensing system in April 2000. Before AFI implemented ARK, they also used a mainframe licensing system.
- ▶ Licensing renewals (and initial licenses) that are mailed to AFI are only entered into the city system and not input into the ARK system.
- ▶ Licensing renewals made in person, adoptions from the shelter, and animals returned to their owners are entered into the ARK system. A receipt is generated and then the same information is entered into the city system using the information from the receipt.
- ▶ According to a report dated July 3, 2001 from the city licensing system, there are 62,884 licensed animals in the City. AFI was unable to determine the total number of licensed animals in the City from the ARK system.

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- ▶ Animal Control and AFI Licensing staff acknowledged that there were instances where pet owners had purchased licenses and had their receipts, but the licenses were not entered into either licensing system.
- ▶ According to AFI Licensing staff, Shelter staff do not always give Licensing staff the licensing receipts for input into the city system.
- ▶ According to Animal Control and a Licensing employee, paperwork on licenses sold at a national pet supply retailer didn't always make it back to AFI. Licenses are no longer sold at the national pet supply retailer.
- ▶ According to AFI Shelter staff, paperwork on licenses sold door-to-door was not always returned to AFI. Licenses are no longer sold door-to-door.
- ▶ According to AFI Licensing staff, there is an unwritten rule that licensing paperwork should be retained for two years, but records from less than two years ago cannot be located.

D. RELATED PARTY TRANSACTIONS

1. EMPLOYMENT OF FAMILY MEMBERS AT AFI

ISSUE: A former AFI Officer stated that AFI became a family business.

CONDITION:

- ▶ The AFI President's spouse has had a working relationship with AFI periodically through its existence. He has been Chairman of AFI's Board of Directors and a vice-president at AFI. The 1998 audited financial statements disclose that he entered into a fifteen-month contract with AFI. See further details regarding this contract in Issue D2.
- ▶ According to personnel records, the AFI President's daughter worked in a variety of positions for AFI from 1991 to 1999.
- ▶ According to the AFI President and AFI staff, the AFI President's son cleaned kennels for AFI in the summer of 1992.

2. COMPENSATION SOURCES OF AFI PRESIDENT'S SPOUSE

ISSUE: A former employee stated that there were four sources from which the AFI President's spouse received compensation.

CONDITION:

- ▶ The AFI President's spouse is the general partner of Special Promotions, LTD (SPL), a limited partnership. SPL entered into a service agreement (the Service Agreement) with AFI for the period September 1, 1997 through December 31, 1998 (with automatic one-year renewals if not terminated by one of the parties with at least thirty days notice) to "assist AFI

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in opening additional low-cost pet vaccination clinics; obtaining contracts to administer pet registration programs for Las Vegas and surrounding governmental entities; and developing meaningful, long-term fund raising programs to sustain and expand its charitable operations.”

- ▶ The Service Agreement was approved by the AFI Board of Directors.
- ▶ Under the terms of the Service Agreement, SPL was to receive compensation from the following sources:
 - 10% of the gross revenue of all of the vaccination clinics, both new and existing.
 - 10% of the gross license revenue received by AFI.
 - 10% of “net funds” received by AFI (exclusive of any funds raised pursuant to the fund raising program for financing the new animal shelter for the City of Las Vegas).
- ▶ AFI’s President confirmed to us that her spouse received compensation as outlined in the Service Agreement.
- ▶ Additional discussion regarding the Service Agreement is found in Issue D3.
- ▶ The October 12, 1998 Board of Directors Meeting Minutes state that the contract with AFI President’s spouse was cancelled as of September 30, 1998.

3. PAYMENT TO SPL

ISSUE: An individual stated that AFI gave SPL \$120,000 in 1998.

CONDITION:

- ▶ As a result of the Service Agreement between AFI and SPL discussed in Issue D2, AFI made payments to SPL in 1998.
- ▶ AFI’s 1998 audited financial statement (Note 3) disclosed the following:

In 1997, the Organization entered into a fifteen month contract with automatic one year renewals, with the spouse of the Executive Director to assist the Organization in opening additional low-cost pet vaccination clinics, obtaining contracts to administer pet registration programs for Las Vegas and surrounding government entities; and developing meaningful, long-term fundraising programs to sustain and expand its charitable operations. Compensation is 10% of the gross revenue of all vaccination clinics, gross license revenue, and net funds from fundraising programs. Fees for these services for the year ending December 31, 1998 were \$120,611.

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- ▶ The \$120,611 payment is classified as clinic professional fees in the 1998 Statement of Functional Expenses within the audited financial statements.
- ▶ The external auditor issued an unqualified opinion on AFI's 1998 financial statements.
- ▶ These payments were disclosed in AFI's 1998 Form 990.

4. LICENSING REVENUE PAID TO AFI PRESIDENT'S SPOUSE

ISSUE: A former employee stated that the AFI President's spouse received 10% of the gross revenue of the Licensing Department because he was involved with starting the licensing program that was taken from the City of Las Vegas.

CONDITION:

- ▶ As discussed in Issues D2 and D3, SPL/the AFI President's spouse received 10% of the gross revenue of the Licensing Department as outlined in the Service Agreement between AFI and SPL.

5. PAYMENTS TO AFI PRESIDENT'S SPOUSE TO SUPERVISE LICENSING

ISSUE: A former employee claimed that AFI President's spouse received \$1,000 per week to supervise AFI's Licensing Department.

CONDITION:

- ▶ AFI's President stated that other than payments made in accordance with the Service Agreement discussed in Issue D2, her spouse was never paid for supervising AFI's Licensing Department.
- ▶ The February 2, 1999 AFI Board of Directors Meeting Minutes state that the AFI President's spouse "declined the Licensing Director's position, due to what he & [the AFI President] feel would possibly be political fodder that might hurt the Foundation." The same minutes also state that a motion was made and passed by the Board to hire AFI President's spouse as "interim licensing manager at \$500/week plus 10%." It is unclear as to the sequence of these actions.
- ▶ A review of the 1999 check register and payroll records only revealed a single payment of \$2,000 to SPL on January 27, 1999 and a reversal of this payment on February 3, 1999. No other payments were identified to SPL or the AFI President's spouse in 1999.
- ▶ The January 4, 2000 AFI Board of Directors Meeting Minutes state that AFI's Board of Directors agreed to hire the AFI President's spouse on a temporary basis to increase licensing revenue and to recruit a manager and operations director to replace him. The Board agreed to pay AFI President's spouse \$4,000 per month, not to exceed six months. Subsequently, the February 1, 2000 AFI Board of Directors Meeting Minutes state that the AFI President's

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spouse “generously offered to run the licensing program pro bono until a sales manager was found.”

- ▶ A review of the 2000 check register and payroll records revealed no payments to SPL or the AFI President’s spouse.

6. VACCINATION CLINIC REVENUE PAID TO AFI PRESIDENT’S SPOUSE

ISSUE: A former employee stated that she learned of an agreement where the AFI President’s spouse would receive 10% of the revenue generated from the vaccinations at stores of a national pet supply retailer because it was his idea to put vaccination clinics in these stores all over the country.

CONDITION:

- ▶ The AFI President’s spouse discussed his involvement with the national pet supply retailer in a letter to the AFI Board of Directors dated August 29, 1997 as follows:

In 1994, I convinced [the national pet supply retailer] to allow me to open and operate vaccination clinics in some of their stores, until they opened their full service veterinary clinic....I did not receive a salary for opening these clinics, but was given permission by [the national pet supply retailer] and our Board to receive 10% of gross vaccination revenue as compensation. During the first year, I was able to open 40 clinics and I received about \$60,000 from the Foundation.

- ▶ The AFI President’s spouse further explained in this same letter what transpired when the vaccination clinics were taken over by the national pet supply retailer:

In January of 1996, we were notified that the clinics would gradually be taken over by [the national pet supply retailer and another company]....Since we were running the adoption program in Arizona, at a loss, as a favor to [the national pet supply retailer], we needed the excess vaccination revenue. I negotiated with [the national pet supply retailer] to cover the Foundation’s monthly cash shortfall, at the same time, I negotiated to have [the national pet supply retailer] pay me a monthly consulting fee that was equal to 10% of the revenue from the vaccination clinics at their height. This was done by having them pay a fee to me, equal to the monthly rent on the 40 clinics. This amounted to \$180,000 in 1996. The arrangement was scheduled to continue through the end of 1997, however, I cancelled it effective August 31, 1997.

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- ▶ We obtained a copy of a consulting agreement between the national pet supply retailer and SPL dated February 16, 1996 that states the following:

In exchange for consulting and fund raising services, [the national pet supply retailer] agrees to pay Special Promotions, Ltd., a consulting fee in the amount of \$15,416.67 per month for the twelve month period beginning January 1, 1996.

- ▶ This agreement appears to be the contract the AFI President's spouse spoke of in the letter to the Board of Directors.

7. DRUG COMPANY DEALINGS WITH AFI PRESIDENT'S SPOUSE

ISSUE: An investigative reporter discussed a \$40,000 consulting fee payment to the AFI President's spouse from a pharmaceutical company that was believed to be a rebate on drugs utilized by AFI.

CONDITION:

- ▶ The AFI President's spouse regularly did consulting work for a pharmaceutical company, per the AFI President.
- ▶ We spoke with a previous employee of the pharmaceutical company who had dealings with the AFI President's spouse. This employee stated that the consulting work was related to communication and presentation issues and had nothing to do with AFI.
- ▶ We contacted the pharmaceutical company's Human Resources Department. They directed us to an automated employment verification service. We entered the AFI President spouse's social security number and it did not match any current or previous employee social security numbers.

II. CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

1. As evidenced by the internal control weaknesses presented in this report, AFI has a weak internal control environment. A control environment is the control consciousness of an organization; it is the atmosphere in which people conduct their activities and carry out their control responsibilities. An effective control environment is an environment where competent people understand their responsibilities, the limits to their authority, and are knowledgeable, mindful, and committed to doing what is right and doing it the right way; they are committed to following an organization's policies and procedures and its ethical and behavioral standards. A control environment encompasses technical competence and ethical commitment; it is an intangible factor that is essential to effective internal control.
2. AFI's licensing data is incomplete, inaccurate, and not easily accessible as evidenced by the following:
 - ▶ AFI staff cannot access licensing data on the old AFI system, only on the ARK licensing system.
 - ▶ Source document routing is not well controlled to ensure licensing data is input; therefore data is not always entered into the ARK system or the city system.
 - ▶ Licensing data is not always entered into both licensing systems thereby making the licensing data incomplete and inaccurate.
 - ▶ The data within the licensing systems is not reconciled.
 - ▶ Licensing documentation is not being maintained for at least two years as required by AFI management. Therefore, source document retention is insufficient to allow reconstruction in the event of data loss.
 - ▶ An audit trail does not exist to allow for identification of the source of data input.
3. The use of multiple licensing systems has created redundancies and inefficiencies. In addition, the ARK licensing system is deficient in that it does not provide an audit trail or checks for input accuracy, completeness, and access control.
4. Under the terms of AFI's Animal Care and Shelter Services Agreement with the City, AFI must provide a monthly financial statement of operations which is to be in a format approved by the City. Financial data currently provided by AFI to the City does not align with the services outlined in the Agreement. Certain financial data related to AFI operations/services are outside the scope of the Agreement and are inappropriately included in the reports submitted to the City. The City cannot appropriately evaluate AFI's performance and how the City's funds are being used as it relates to the Agreement with the intermingling of this financial data.

RECOMMENDATIONS:

1. AFI management should immediately take measures to improve its internal control environment. Management is responsible for “setting the tone” for the organization and is ultimately responsible for the environment that exists. Management should foster a control environment that encourages:

- ▶ The highest levels of integrity and personal and professional standards.
- ▶ A leadership philosophy and operating style which promotes internal control throughout the organization, and
- ▶ Assignment of authority, responsibility, and accountability.

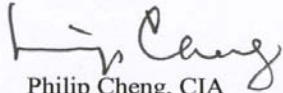
To enhance AFI’s control environment, AFI management should at a minimum:

- ▶ Develop formal departmental policies and procedures. Employee responsibilities, limits to authority, performance standards, control procedures, and reporting relationships should be clearly defined.
- ▶ Make sure that employees are well acquainted with the policies and procedures.
- ▶ Create formal job descriptions for all positions.
- ▶ Develop improved training programs for employees.
- ▶ Take appropriate disciplinary action when an employee does not comply with policies and procedures or behavioral standards.


2. The City and AFI should agree upon a single licensing system that both entities are able to access. The system should include the following features:
 - ▶ system checks for input accuracy, completeness, and access control
 - ▶ an audit trail to identify the source of data input
 - ▶ access to historical licensing data from existing systems
3. The City and AFI should mutually determine what data should be input into the licensing system, who should perform this function, and source document retention requirements. The licensing system should periodically be checked for accuracy through reconciliation of data to source documents.
4. The City should require AFI to modify its monthly financial reports to align with the Agreement.
5. AFI should modify its monthly financial reports to align with the Agreement. AFI should also identify and document the areas where cost allocations are made between Agreement and Non-Agreement services (i.e., utilities, labor, overhead) in preparation of the monthly financial reports. These cost allocations should be submitted to Detention and Enforcement for review for reasonableness.

August 24, 2001

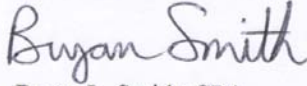
Prepared by:



Philip Cheng, CIA
Senior Internal Auditor



William Cimo, CISA
Senior Information Technology Auditor

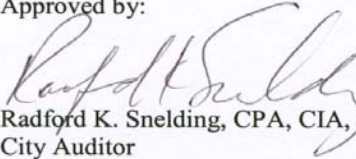


Bryan L. Smith, CPA
Internal Auditor



Gary L. Phillips
Internal Auditor

Approved by:



Radford K. Snelding, CPA, CIA, CFE
City Auditor